

# Daymon Business Project



*Work Project based on “ecommerce in Retail: Europe Snapshot and future challenges” a Business Project developed in collaboration with Daymon*

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This report aims to provide a more detailed approach and reflection on the business project “ecommerce in Retail: Europe Snapshot and future challenges” for the company Daymon Worldwide, executed during this last semester.

The report is divided in three main parts: context, customization benefits and reflection on the learning. In the first part, the aim is to give an overall analysis of the company, together with an overview of the whole project and work done. Following this contextualization section, the aim will be to expand one of the main recommendations of the project, focusing on the vast theory and trend of customization and how it can benefit retailers and business enterprises in general. Finally, a reflection on the learning process is set in place to evaluate my personal development during both business and work projects.

## Context

### Company

Daymon Worldwide is a well-known company in retail with more than 35,000 associates worldwide, establish for more than 40 years in the industry, offering a full-service consultancy advisory in global Private Brand and Consumer Interactions. Daymon is divided into different companies that focus in areas such as: Private Brand Development, Strategy & Branding, Sourcing & Logistics, Retail services and Consumer Experience Marketing. In Portugal, the company has Jerónimo Martins (Pingo Doce) as its biggest client.

### Market Overview

Daymon is the largest private retail branding and sourcing company in the world, leveraging on its size and retail expertise to maintain its position in the market, creating therefore several “entrance barriers”. As any other consultancy company in the world, Daymon benefits by working with the biggest retailers worldwide, proving their quality and value, and defending their “industry leader position” by using a strong network of clients and expertise knowledge that circulates internally to maintain their business model.

## **Current Client Situation**

Since our client is Daymon but our “real” client is Pingo Doce, I believe this point is not relevant to the report. The business project focused on expanding retail operations channels, in this case aiming at online presence. Therefore, if any “client situation scenario” were applicable, it would be the fact that Pingo Doce is not active in the ecommerce market.

## **The Business Project Challenge**

The business project consisted initially in summarizing the European ecommerce scenario, naming its best practices cases and pointing out future challenges and trends that might affect the industry, although, the final outcome was slightly different. Our final report consisted on a snapshot of the ecommerce in Europe and Asia, a scoring model framework for any retailer to use when thinking on expanding to online and finally, a concrete recommendation strategy for Pingo Doce to expand into the online channel.

## **Summary of conclusions**

In order to provide an overview of the whole content and conclusions of the business project, as well as, to start explaining my research topic, it would be helpful to summarize the three main parts that composed the final report.

Firstly, the snapshot was basically a research period, when several indicators such as market size, Internet penetration, number of retailers and respective market shares and characteristics of the ecommerce were represented in a specific framework for each country, enabling a future comparison. (See appendix 1 for an example of snapshot)

Secondly, the group developed a scoring model framework that compared all the countries according to indicators that we considered critical for the success of the ecommerce operation. In this segment, the two most attractive countries according to our criteria were China and the U.K., with the least attractive being Ukraine and Greece. (See appendix 2 for an example of the Scoring model framework)

Finally, Daymon required from us a specific strategy for Pingo Doce including logistics and operations, marketing and emotional approach and a financial description on how the project would affect the financials of the company. This part

ended up being the most challenging one since we would have to meet the requirements of the company in terms of portfolio investments, which of course made our recommendations more concrete, forcing us to deeply understand Pingo Doce positioning in the market, in order to transfer their value proposition to an online non-physical scenario. (See appendix 3 for an example of the strategy for Pingo Doce)

## **Further Development of a Specific Topic – Customization**

### **Brief Introduction**

As mentioned before, one of the final requirements of the business project was to develop a concrete strategy for Pingo Doce to enter the ecommerce market in Portugal. In this strategy, one of the parts that were very important for us was the marketing and emotional approach. Since Pingo Doce is widely known by their “low price” offer and convenience, the same brand values needed to be transferred to an online scenario keeping therefore the main differentiation factors of the brand.

In this specific recommendation, and after researching shaping trends of the online market, it was very clear that leveraging on big data in order to provide a customized offer was key to success in ecommerce. Furthermore, after looking carefully at the grocery shopper’s path to purchase (Daymon, 2014), there was a strong need for an increase in brand loyalty and bonding, which made customization a part of our recommendation, mainly to what concerns targeted discounts and product offerings. (See appendix 4 for an example of the shopper’s path to purchase)

Nevertheless, since our final recommendation was done in the last weeks of the business project, I found that the specific topic of customization was a very interesting and important key success factor for the ecommerce market and our approach was slightly marginal and superficial, which made me want to research this topic in depth.

In this sense, I will focus my work project in the benefits of customization, not only in retail but also across industries, showing which are the possibilities of customization, its specific benefits and how it can improve brand loyalty, sales and operations.

### **Why Customization?**

“By providing customization, brands raise loyalty at a time when it’s more important than ever.” – (Bain, 2013)

When establishing an ecommerce platform, brands are more empowered than ever to monitor the activity of their customers. It is now possible to know exactly the type of customer that enters the site, its age, sex, spending habits and tastes. Also, from the company perspective, testing and targeting gets more accurate in this situation enabling them to compile monitored data, creating more desirable offers for each client. This is the general theory of big data, environment where most companies now try to capture value and leverage on this new way to engage with the customer, and of course, even though most companies say it reluctantly, this “big data” ends up with an attempt to bring customization a step further. A survey done by Bain & Company in 2013, to more than 1,000 online shoppers found that 25% to 30% are interested in trying customized options. There are still no strong numbers to describe the customization market although, looking solely at the sales of customized footwear, if we assume that 25% of them are customized sales, that would represent a market of around \$2 billion per year. Another interesting fact is that when a client customizes a product online (does not necessarily means that the costumer bought any product in the first contact), they would engage more with the company by staying longer on the website, visiting it more frequently and making them more loyal to the brand. In a world where customer loyalty is becoming key to success – more than 1,200 global executives across several industries when asked about customer loyalty, 67% of them say that they believe customers are becoming less loyal to their brand – customization brings an increase of around 50% on Net Promoter Score (NPS). This indicator created by Bain is usually the metric used to analyze customer loyalty, and states that higher NPS means more sales, referrals and lifetime customer value. (Reichheld, Frederick F., 2003) According also to the same survey, Bain found that customers who tried a customized product are willing to pay 20% more and wait 3 to 4 more weeks for the product when compared to a standardized one. (See appendix 5)

### **How to manage customization?**

Now that the benefits of customization are clearly defined, it would be accurate to explain how companies should use this new approach.

As any other business strategy, companies need to have a goal in mind otherwise it would just be navigating without a route. In this case, customization can be used to increase Marketing and PR, can also be used as a new business operation parallel to the current activities of the company and finally, it can be used as a core strategy. Depending on the goal chosen by each company, there are key areas that companies need to focus on. (See appendix 6)

First key point is to define how much customization the company needs to offer to attain their objectives. The degree of customization means how many features can the customer select and how will that correlate with the logistics and operations of the company internally. For example show brands such as Converse offer a wide range of customization, where the customer is able to pick every part of the normal “All Star” and choose any color or pattern. This will mean that logistically Converse needs to be able to produce unit by unit and deliver it to the customer as one single manufactured product. Other example is the furniture company Serena & Lily that offers different bundles of bed settings. In this case there is no real manufactured customization, although by allowing the customer to pick a specific type of blanket with a different type of pillow, Serena & Lily give the impression to the customer that the bought set is unique when in reality the company just needs to pick different sets of products in their warehouse and ship them like they ship the rest of their “normal” products. The scale of customization needs therefore to be aligned with the logistics and company’s strategy to create a coherent value proposition.

Second main point is the design of the platform. In this case the interaction needs to be simple. Using customization by giving the customer a white canvas will disrupt the process and compromise the whole value of the operation. Most brands use already a starting point for customers to start editing the product, making it more simple and usable to the eyes of the final customer.

Third relevant area is the social side of customization. Since clients spend their time and creativity designing a specific piece, most often they want to be able to share it. This is the case of Longchamp for example, that enables every customer to share their creations on Facebook, making them ambassadors of the brand and even sometimes designers of the brand. North Face also does this very well, by having a specific gallery only for customized jackets designed by their clients.

Fourth and final point is the customer experience. Since clients are spending time with your brand and paying 20% more for your products, reverse logistics and

customer satisfaction needs to be carefully traced to avoid disappointments. Basically, since brands are asking the client to invest on them they will also need to take “better care” of them. It is a simple trade off that will make customers coming back to the platform and be proud of the connection to the company. (Bain, 2013)

### **Customization: Opportunities for SME's**

So far, the focus has been on how establish brands can leverage on customization to better address their client needs. However, mass customization is also the solution for SME's to fight “giants” and compete in markets dominated by economies of scale.

Mass customization connects two contradictory ideas: mass production and customization. In theory, this new practice tries to deliver tailor-made solution to customers at lead times similar to the traditional mass production products. (BDC.CA, 2013)

This new disruptive business model has several benefits for embryonic companies. For starters, since products are made to order, there is no need to stock finish goods, therefore warehousing is not an operational cost in the company. By creating this aligned connection between supply and demand, the company can also adjust their offer more quickly to the current client needs, creating solely the necessity to have an ambidextrous manager, that is able to manage a product portfolio of establish and innovative products in the same time. Also, this alignment allows companies to ask for a higher price by product since their offer is unmatched by any other competitor. A very successful example of this is the Portuguese startup Green Boots that focus on an aligned demand supply logistics, asking for more than 30% in terms of price when they customize one of their products. Another relevant factor for these brands is the reduction on reverse logistics. Typically, a company that focuses on customized products reduces their returns by 33%. (BDC.CA, 2013)

Summing up, customization enables small companies to win by differentiation, and with success stories like MyMuesli, that succeeded in a very price-led industry (cereals/nutrition), it is clear that when managed properly this new trend can create several opportunities for SME's.

### **Customization in ecommerce grocery retail**



This topic is an attempt to connect what was mentioned before to grocery retailers that have an online ecommerce platform. In their specific case, customization mainly tackles two different areas: product portfolio and pricing.

Firstly, a product portfolio is of course a set of products that match different needs. Although, too much differentiation in some cases might create the choosing process too complicated for the customer whereas, too little might also be the cause of failure. Two concrete example of this theory are the ones of the juice brand Tropicana and the shampoo brand Head & Shoulders. In one hand Tropicana has raised their product variety from six in 2004 to more than 20 today, having an increase in sales of 23% and enabling them to charge higher prices than the more generic juice brands. On the other hand, Head & shoulders saw its sales increase 10% with a reduction of their product portfolio from 26 to 15. Even though these cases send mixed messages it is important to describe this process as a pivoting one. (BDC.CA, 2013)

In these business scenarios, brands and retailers need to understand what is the optimal level of product differentiation and adjust to it.

Secondly, big data crunching methods allow grocery retailers to promote new pricing strategies to attract and retain new clients. Tesco U.K. for example, is able to base their discounts and product offerings on the specific shopping habit of the customer. In more detail, if a customer buys consistently a certain product X, a discount in this specific product, or in a complementary one is much more valuable to this specific customer than to a customer that buys mainly products of category Y. This new discount policy basically allows retailers to offer discounts to the customers that value them the most.

Another new technique is a concept called customized pricing, and bases their strategy on a self learning algorithm that collects data from every customer and defines what would be the price point that that specific customer would require to buy a certain product. The company Freshplum that raised \$2.4 million from Google Ventures and Greylock Partners is a clear success case that uses this new big data pricing approach. Their algorithm comprises all sorts of information about the specific customer such as weather, concrete street address, past products bought and amount spent on the website. Even though the algorithm is still secret, Freshplum proved already that with their new concept they could boost revenues 5% on average.

This new technique can be specifically interesting for grocery retailers that can finally tap in a market that they couldn't reach before, specially after all the price comparison applications that flood customers today. (Forbes, 2014)

Finally, big data also allows retailers to promote A/B testing internally, which can allow them to cut costs on marketing research externally and promote a customized offer for each client. Usually, retailers such as Pingo Doce, rely on outside consultant companies to manage their product tests in the physical stores. Although, when setting up an online platform, retailers can themselves internally test their product display, prices and discounts adjusting their offerings to each specific client. Amazon is a clear example on how an ecommerce platform can leverage on own data. In practical terms, a client that uses the platform to buy a product X may also be interested in buying a specific product Y or Z. Therefore, by a series of A/B tests, retailers can better understand to which products is the customer more interested in and which product can complement, together with which price point, their needs.

## Conclusion

Summing up, it is indubitable that product customization will be a requirement for customers in a few years. The question at the moment is on how can companies reach mass customization and what is necessary to change internally to provide this service. Also, this degree of customization is only possible since the boom of ecommerce across industries, which enables companies to get data from customer needs in a way that is much more easier to collect, but still very hard to compile and to draw conclusions upon. In a certain way, customization has been around since long ago. For example in a Bazaar, it is common sense that a seller would ask for almost double the price for someone who is nicely dressed, than from someone who is not, and this is probably the main guideline of the whole customization process – companies should try to extract the biggest possible value from each different customer.

## **Reflections on Learning**

### **Previous knowledge learned from your Masters Program**

It is undoubtedly complicated to specify exactly the amount of knowledge that one got from a 2 years Masters program although, in an attempt to respect all the teachers and different subjects that I had so far, I would have to say that each teacher and subject gave me a specific skill to succeed in this business project. In our specific project, several skills were required from us. Since data crunching, to working under time pressure, It is my personal belief that most classes that I had so far enabled to do a very simple thing – to not disappoint someone that has required something from me and from the group. Although, courses like Marketing Planning, Sales Force management and Distribution channels played an important relevant role in the success of our project, most of the classes taught me something that was useful during this experience.

Looking back to what I had done individually over the past 4 months it would be impossible to say the team spirit and team management was not the most important skill that I got from my Masters. During all the meetings with the company and with the academic advisor a huge deal of soft skills were required, leading me to believe that those were the most critical set of skills learned and acquired at Nova and for that I will always be truly thankful.

In a more precise way, analytical skills were also very important and Daymon demanded quite a few from them, but even in those moments, I believe it was my ability to communicate properly to all the parts involved, together with the skill to learn quickly something I didn't fully understood that made the difference in the end.

### **New Knowledge and Personal Experience**

During these last months, I believe that the group develop and in depth knowledge on how grocery retail works, mainly in the logistics and marketing fields. It was astonishing in the beginning the complexity of some operation, specifically in logistics, were seconds or mistakes would create a huge operating loss for the company, and still people from the company managed these areas with incredible professionalism and competence.

Moving towards marketing, it was also very interesting to see how did retailers differentiated themselves from competition, facts that were at least to me very much unknown at the time. These new insights made me a much more critical and analytical person, with a much more factual and “real business” approach than I used to be. Of course that having a real “hands on” experience helps a lot to understand how does the industry really works, although I believe it is by compiling the several lessons in class with the expertise knowledge of some professionals that one can fully understand the behavior of an industry. On that sense, I believe that that was the main reason why I found this experience so enriching for my professional and personal life. Finally, working during such a long period of time with the same group of people forced us to know how to interact with each other in the most efficient way possible, learning to work with the project management rules that would fit our team specifically, and to overcome all the barriers of communication, motivation and knowledge that we encountered during the whole project. There are a few things such as time management and communication strategies that I should probably work on but also, I think that because our group was so adaptable to challenges and new environments that we possess the right characteristics to succeed in the business world.

### **Benefit of Hindsight**

The only thing I would do differently would be to better understand and overlook the whole project in the beginning in order to understand quicker which were the main needs of the company and therefore spending more time in what was most important to them, in this case the final ecommerce strategy for Pingo Doce.

Overall, I am extremely satisfied with the work developed by the group and I think that in every detail possible that we didn't disappoint and honored the image not only of CEMS students but of Nova as well.

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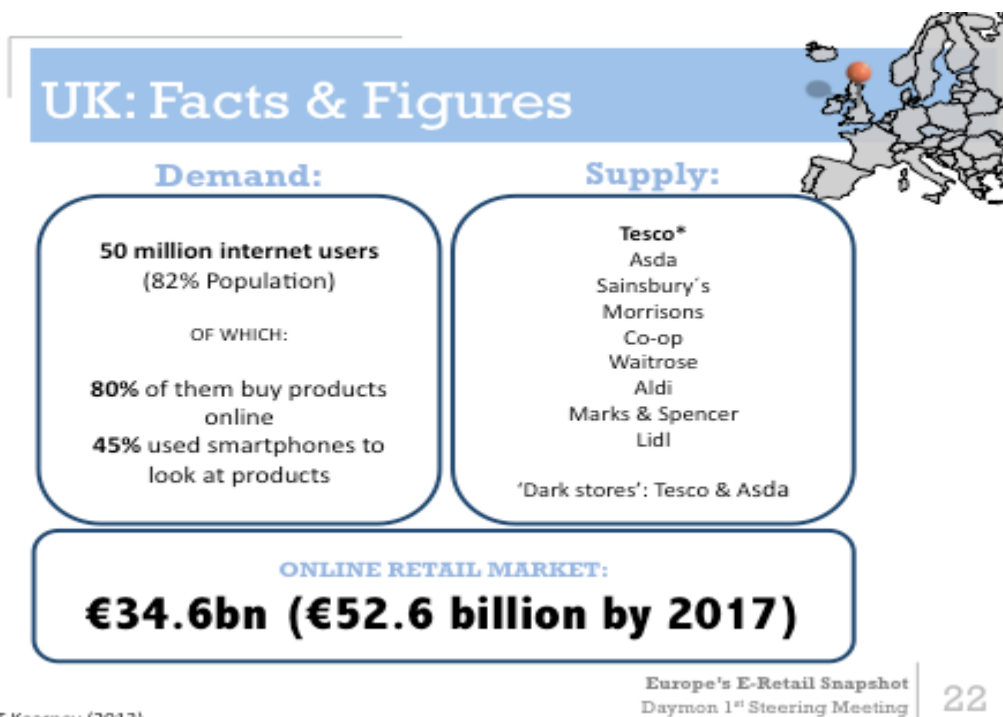
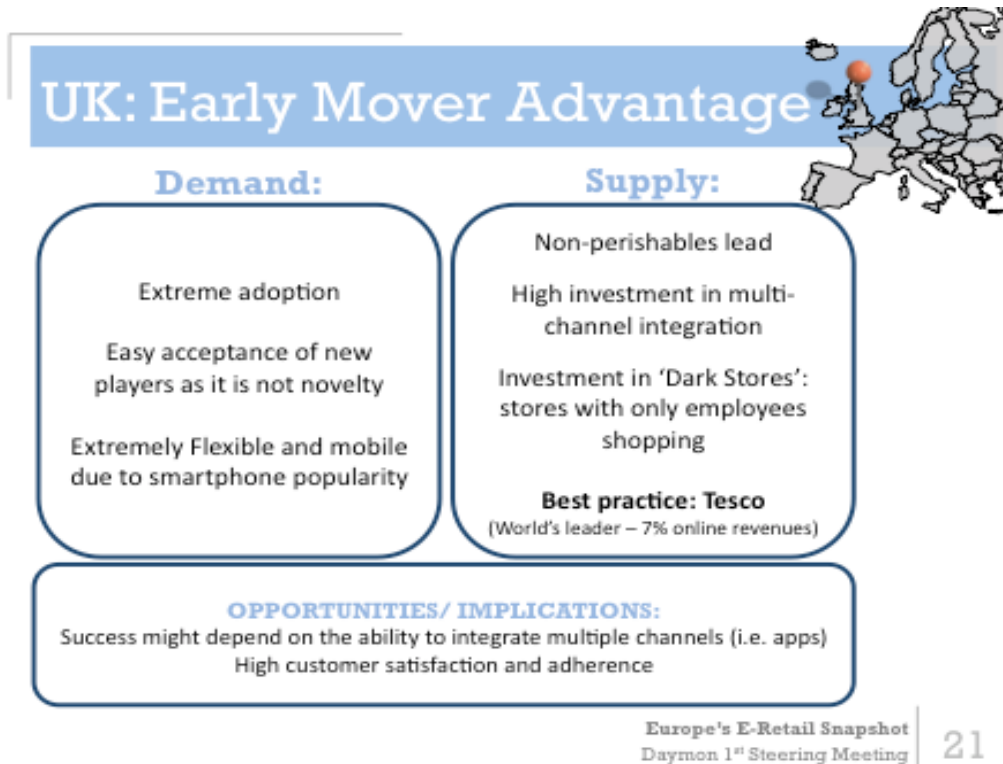
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## Appendix

### Appendix 1



Source: AT Kearney (2013)

## UK: Online Retail Overview



Online Retailers	User friendly?	Online Grocery (G) / other items (O) Shopping	Pick up/Home Delivery option	Fees (\$shopping total = fee)	
Tesco	👍	G/O	H	±€4,7 - €6 Pass: €8.3 or €12 (levels of flexibility)	Full refunds & dynamic site with extensive nutritional info
Asda	👍	G/O	P/H	Delivery pass £8/m – unlimited deliveries Regular = €3.6 - €6	Phone shopping app, "Guarantee price 10% than competition"
Sainsbury's	👍	G/O	H	<€48 = €8.3 >€48 = €3.6- €6.7 >€120 = free	Promise made to select food with highest shelf life
Morrisons	👍	G/O	H	>€48 = €1.2 - 6	Heavy expansion of delivery routes in 2014
Waitrose	👍	G/O	P/H	>€60 = free	Price match Tesco Discount delivered goods from 2 <sup>nd</sup> to 5 <sup>th</sup> order
Co-op	👎	-	-	-	>€30 = free home delivery
Marks & Spencer	👍	G/O	P/H (wines)	€4.20 – wines only	Can order by phone
Aldi	👎	-	-	-	-
Lidl	👎	-	-	-	-

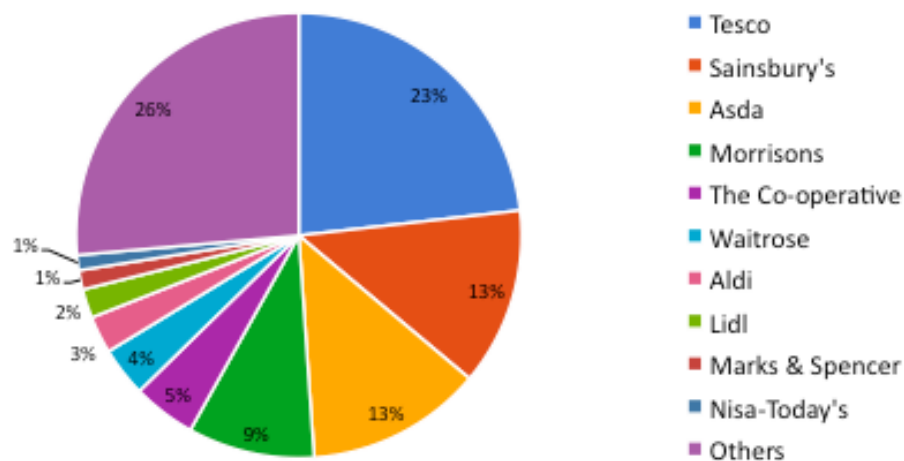
**So What?**

- Very good offer, detail and customer service
- Most developed eCommerce retailer

Europe's E-Retail Snapshot  
Daymon 1<sup>st</sup> Steering Meeting

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## UK: Brand Market Shares



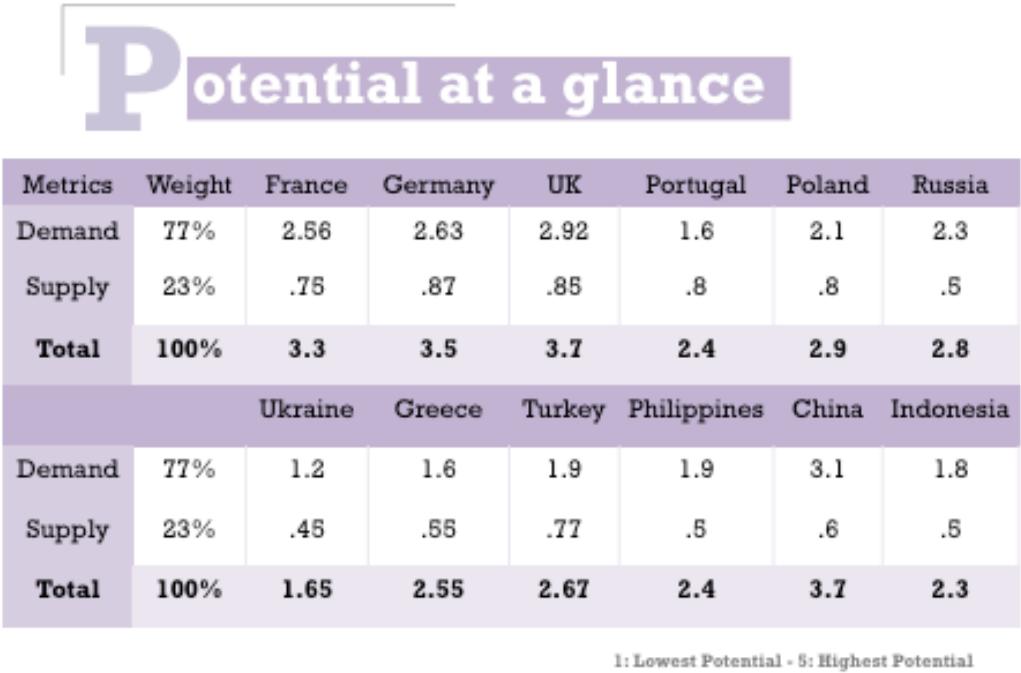
Grocery retailers market size: 100% = €190,248.4m

Source: euromonitor (passport) 2013

Europe's E-Retail Snapshot  
Daymon 1<sup>st</sup> Steering Meeting

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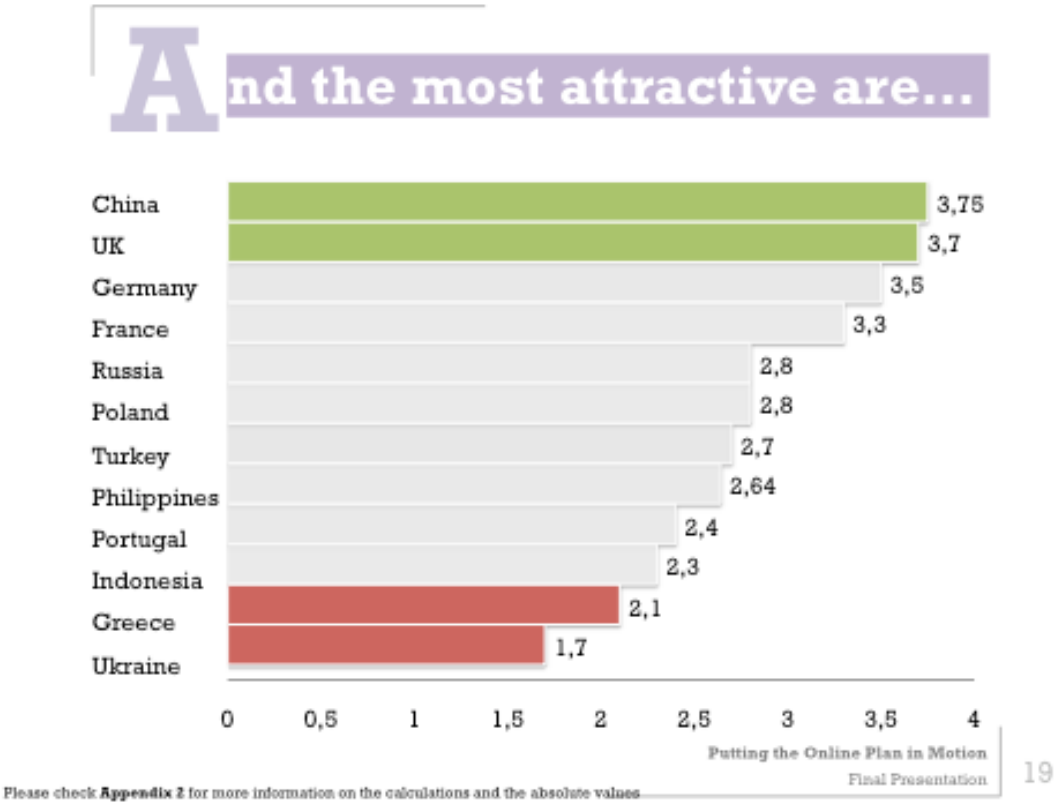
Appendix 2



Putting the Online Plan in Motion  
Final Presentation

Please check **Appendix 2** for more information on the calculations and the absolute values

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### Appendix 3

## DEVELOPING THE 'ONLINE PLAN'

LEARNING WITH THE BEST
TASK, OBJECTIVES & STRATEGY
EMOTIONAL APPROACH
LOGISTICAL APPROACH
FINANCIAL APPROACH
FUTURE POSSIBILITIES

## Strategy Approach

- › Focus on non-perishables → higher margins
- › Focus on optimization of routes
- › Decreasing reverse logistics rates
- › Market the platform to increase awareness

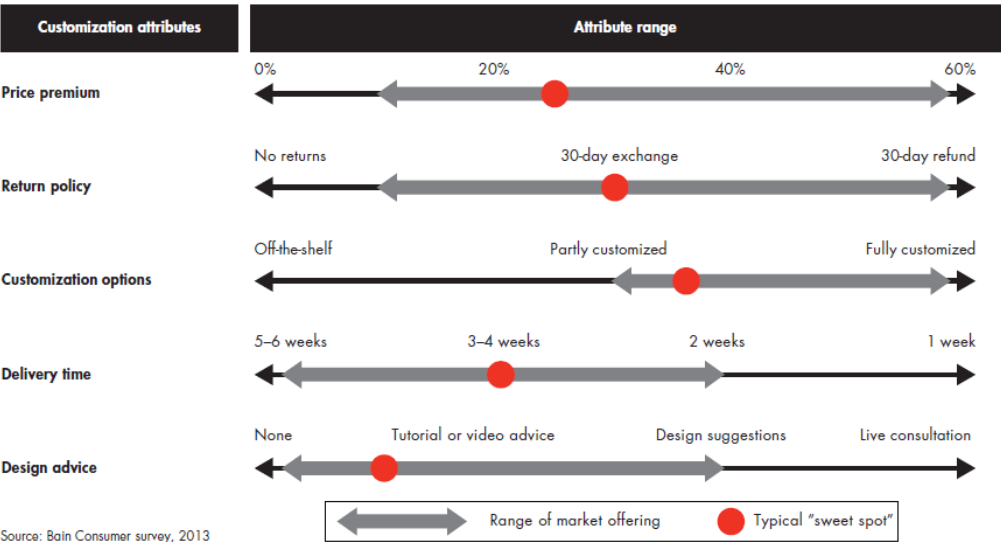


Appendix 4



Appendix 5

Figure 2: Sweet spot for customized products on key dimensions, based on athletic shoes, handbags and dress shirts



## Appendix 6

*Figure 3:* Brand approach to customization, depending on life cycle and desired impact of offering

